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December 14, 2001

**By Hand Delivery**

Magalie R. Salas, Esq.  
Secretary  
Federal Communications Commission  
445 12th Street, S.W.  
Washington, D.C. 20554

**RECEIVED**

**DEC 14 2001**

**FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY**

Re: CC Docket Nos. 00-218 & 00-251

In the Matter of Petition of AT&T Communications of Virginia, Inc., TCG Virginia, Inc., ACC National Telecom Corp., MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. for Arbitration of an Interconnection Agreement With Verizon Virginia, Inc. Pursuant to Section 252(e)(5) of the Telecommunications Act of 1996

In the Matter of Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Expedited Preemption of the Jurisdiction of the CC Docket No. 00-218 Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration

Dear Ms. Salas:

Enclosed please find an original and three (3) copies of the corrected response of AT&T and WorldCom to the record request by Commission staff for the workpapers underlying the DCF cost of capital analysis of AT&T/WorldCom witness John Hirshleifer. The request is:

Please place into the record, on a computer disk, the UNE cost-of-equity capital study that is reflected in AT&T/WorldCom's proposed UNE cost of capital for Verizon-VA. As part of this request, please include all models, formulas, equations, work papers, data, calculations, and a list of assumptions and a list of cites to sources of all data reflected in this study (the list of assumptions and the list of cites to the data sources may be

ENCLOSURE  
List ABCDE

D+4

Magalie R. Salas, Esq.  
December 14, 2001  
Page 2

provided on hard copy). Please submit this information in the software format used to develop the study. For example, submit this information in Excel if Excel was used to make calculations, not in PDF format. The software should retain any formulas rather than just values developed as part of that study. It should permit the staff to revise the study by editing the submitted study instead of replicating it entirely and then making changes to the replicated study.

Tr. 3764 (Oct. 25, 2001) (request no. 2). This request supersedes the response to this question filed electronically and in hard copy on December 12 and 13, respectively. Three Excel worksheets were inadvertently omitted from the earlier response.

Thank you for your consideration in this matter.

Respectfully submitted,

  
David M. Levy

cc: Dorothy Attwood  
Jeffrey Dygert  
Catherine Carpino  
Aaron Goldschmidt  
Katherine Farroba  
Counsel of Record  
Catherine Ronis

Enclosures

Before the  
Federal Communications Commission  
Washington, D.C. 20554

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DEC 14 2001

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of Petition of AT&T )  
Communications of Virginia, Inc., )  
Pursuant to Section 252(e)(5) of the )  
Communications Act, for Preemption of )  
the Jurisdiction of the Virginia State )  
Corporation Commission Regarding )  
Interconnection Disputes with Verizon- )  
Virginia, Inc. )

CC Docket No. 00-251

In the Matter of Petition of WorldCom, )  
Inc. Pursuant to Section 252(e)(5) of the )  
Communications Act for Expedited )  
Preemption of the Jurisdiction of the )  
Virginia State Corporation Commission )  
Regarding Interconnection Disputes )  
with Verizon Virginia Inc., and for )  
Expedited Arbitration )

CC Docket No. 00-218

CERTIFICATE OF SERVICE

I hereby certify that on this 14th day of December, 2001, copies of the three attached response to a Staff record request were sent via hand delivery, and/or electronic mail to:

Karen Zacharia, Esq.  
Verizon, Inc.  
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Richmond, VA 23219  
*\* By electronic mail*

\_\_\_\_\_  
David M. Levy

**Response of AT&T and WorldCom to Staff Record Request  
for documentation of AT&T/WorldCom study  
of Verizon-VA equity cost of capital**

(corrected Dec. 14, 2001)

**REQUEST:** Please place into the record, on a computer disk, the UNE cost-of-equity capital study that is reflected in AT&T/WorldCom's proposed UNE cost of capital for Verizon-VA. As part of this request, please include all models, formulas, equations, work papers, data, calculations, and a list of assumptions and a list of cites to sources of all data reflected in this study (the list of assumptions and the list of cites to the data sources may be provided on hard copy). Please submit this information in the software format used to develop the study. For example, submit this information in Excel if Excel was used to make calculations, not in PDF format. The software should retain any formulas rather than just values developed as part of that study. It should permit the staff to revise the study by editing the submitted study instead of replicating it entirely and then making changes to the replicated study. *See Tr. 3764 (Oct. 25, 2001) (request no. 2).*

**RESPONSE:** The attached Excel file contains the requested information.

(This corrected version includes three worksheets inadvertently omitted from the file produced on December 12, 2001.)



"01-12-14 Hirshleifer  
DCF Workpapers--co

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**DEC 14 2001**

**FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY**

Model Estimates of Cost of Capital

Company	S&P Stock Guide	(07/07/00 Value Line)	Forward-looking Dividend Yield	Jun-00 IBES 5-yr growth	WEFA 6/00, Ibbotson COCQ 6/00 Long-Term Economy Growth Rate	S&P Stock Guide	Market Value	Market Weight	S&P Bond Guide (as of 6/30/00)	DCF		(as of 6-00)				CA
	Price as of 6/30/00	2001 Dividend per Value Line				C/S Outst (millions)	Equity		COST OF DEBT	Co's	1/4-3/4 Weighted	BARRA Beta	Debt/Equity	Unlevered Beta	Re-levered Beta	1-month Treasury Bills
Verizon (7/3/00)	\$55.000	\$1.54	3.13%	11.65%	6.285%	2,760.000	\$151,800	37.70%	7.86%	11.07%	10.24%	0.682	0.351	0.56	0.77	10.71%
BellSouth	\$42.625	\$0.80	1.88%	11.07%	6.285%	1,881.533	\$80,200	19.92%		9.13%	10.30%	0.645	0.212	0.57	0.71	10.26%
SBC Communications	\$43.250	\$1.02	2.36%	12.87%	6.285%	3,401.720	\$147,124	36.54%		10.34%	10.39%	0.825	0.175	0.74	0.70	10.18%
ALLTEL	\$61.938	\$1.34	2.16%	14.41%	6.285%	315.280	\$19,528	4.85%		10.49%	10.40%	0.742	0.231	0.65	0.72	10.33%
CenturyTel	\$28.750	\$0.22	0.77%	14.79%	6.285%	140.235	\$4,032	1.00%	8.54%	7.96%		0.841	0.503	0.64	0.83	11.16%

2.53% 12.15%

\$402,684 100.00%

10.38% 10.33%

0.73

0.63

0.73

=4.93%+beta\*0.075

DEBT EQUITY

AVG BOOK 49.0% 51.0%  
AVG MARKET 20.0% 80.0%

Ibbotson	4.10%	long-term inflation
	3.50%	real GDP for 1929-1999
	7.60%	
WEFA	4.97%	long-term nominal GNP growth rate (2000-2025)
AVERAGE	6.285%	

TAX RATE: 37.5%

4.93%

M Cost of Equity			COST OF EQUITY  (AVERAGE of DCF and CAPM Average)	BOOK		MARKET		WEIGHTED AVERAGE COST OF CAPITAL			2000 2Q 10-Q (\$million)			
Company	20-yr Treasury Bonds	Average		DEBT	EQUITY	DEBT	EQUITY	MIN	MIDPOINT	MAX	Short-Term Debt	Long-Term Debt	Book Debt	Book Equity
Verizon (7/3/00)	10.50%	10.60%	10.42%	49%	51%	26%	74%	9.17%	9.54%	9.91%	20,060	33,286	53,346	56,215
BellSouth	10.17%	10.21%	10.26%	51%	49%	17%	83%				6,108	10,869	16,977	16,502
SBC Communications	10.11%	10.15%	10.27%	48%	52%	15%	85%				9,812	15,927	25,739	28,375
ALLTEL	10.22%	10.28%	10.34%	46%	54%	19%	81%				64	4,441	4,505	5,255
CenturyTel	10.83%	10.99%	10.99%	51%	49%	33%	67%				75	1,954	2,029	1,948

=6.26%+beta\*0.055  
6.26%

AVG BOOK  
AVG MARKET

Debt Implied: 34.5%  
Equity Implied: 65.5%

\$36,119 \$66,477 \$102,596 \$108,295

### 3-stage DCF Model - BellSouth

Stock Price	42.625
Expected Dividend	0.80
I/B/E/S 5-Year Growth Rate	11.07%
Long-Term Growth Rate	6.285%
Cost of Equity	9.13%

Period	Growth Rate	Dividend Amount	PV of Dividend
<b>42.62</b>			
0			
1		0.80	0.73
2	11.07%	0.89	0.75
3	11.07%	0.99	0.76
4	11.07%	1.10	0.77
5	11.07%	1.22	0.79
6	10.75%	1.35	0.80
7	10.43%	1.49	0.81
8	10.11%	1.64	0.81
9	9.79%	1.80	0.82
10	9.48%	1.97	0.82
11	9.16%	2.15	0.82
12	8.84%	2.34	0.82
13	8.52%	2.54	0.82
14	8.20%	2.75	0.81
15	7.88%	2.97	0.80
16	7.56%	3.19	0.79
17	7.24%	3.42	0.77
18	6.92%	3.66	0.76
19	6.60%	3.90	0.74
20	6.29%	4.14	0.72
Terminal	6.29%	154.60	26.92

### 3-stage DCF Model - SBC

Stock Price	43.250
Expected Dividend	1.02
I/B/E/S 5-Year Growth Rate	12.87%
Long-Term Growth Rate	6.285%
Cost of Equity	10.34%

Period	Growth Rate	Dividend Amount	PV of Dividend
			<b>43.25</b>
0			
1		1.02	0.92
2	12.87%	1.15	0.95
3	12.87%	1.30	0.97
4	12.87%	1.47	0.99
5	12.87%	1.66	1.01
6	12.43%	1.86	1.03
7	11.99%	2.08	1.05
8	11.55%	2.33	1.06
9	11.11%	2.58	1.07
10	10.68%	2.86	1.07
11	10.24%	3.15	1.07
12	9.80%	3.46	1.06
13	9.36%	3.78	1.05
14	8.92%	4.12	1.04
15	8.48%	4.47	1.02
16	8.04%	4.83	1.00
17	7.60%	5.20	0.98
18	7.16%	5.57	0.95
19	6.72%	5.95	0.92
20	6.28%	6.32	0.88
Terminal	6.29%	165.72	23.17



### 3-stage DCF Model - ALLTEL

Stock Price	61.938
Expected Dividend	1.34
I/B/E/S 5-Year Growth Rate	14.41%
Long-Term Growth Rate	6.285%
Cost of Equity	10.49%

Period	Growth Rate	Dividend Amount	PV of Dividend
<b>61.94</b>			
0			
1		1.34	1.21
2	14.41%	1.53	1.26
3	14.41%	1.75	1.30
4	14.41%	2.01	1.35
5	14.41%	2.30	1.39
6	13.87%	2.61	1.44
7	13.33%	2.96	1.47
8	12.79%	3.34	1.50
9	12.24%	3.75	1.53
10	11.70%	4.19	1.54
11	11.16%	4.66	1.55
12	10.62%	5.15	1.56
13	10.08%	5.67	1.55
14	9.54%	6.21	1.54
15	8.99%	6.77	1.52
16	8.45%	7.34	1.49
17	7.91%	7.92	1.45
18	7.37%	8.51	1.41
19	6.83%	9.09	1.37
20	6.29%	9.66	1.31
Terminal	6.29%	244.10	33.19

### 3-stage DCF Model - CenturyTel

Stock Price	28.750
Expected Dividend	0.22
I/B/E/S 5-Year Growth Rate	14.79%
Long-Term Growth Rate	6.285%
Cost of Equity	7.96%

Period	Growth Rate	Dividend Amount	PV of Dividend
			28.75
0			
1		0.22	0.20
2	14.79%	0.25	0.22
3	14.79%	0.29	0.23
4	14.79%	0.33	0.24
5	14.79%	0.38	0.26
6	14.22%	0.44	0.28
7	13.66%	0.50	0.29
8	13.09%	0.56	0.30
9	12.52%	0.63	0.32
10	11.96%	0.71	0.33
11	11.39%	0.79	0.34
12	10.82%	0.87	0.35
13	10.25%	0.96	0.36
14	9.69%	1.05	0.36
15	9.12%	1.15	0.36
16	8.55%	1.25	0.37
17	7.99%	1.35	0.37
18	7.42%	1.45	0.36
19	6.85%	1.55	0.36
20	6.29%	1.65	0.36
Terminal	6.29%	104.17	22.50

### 3-stage DCF Model - Verizon

Stock Price	55.00
Last Dividend Declared	1.54
I/B/E/S 5-Year Growth Rate	11.65%
Long-Term Growth Rate	6.285%
Cost of Equity	11.07%

Period	Growth Rate	Dividend Amount	PV of Dividend
			<b>55.00</b>
0		1.54	
1	11.65%	1.72	1.55
2	11.65%	1.92	1.56
3	11.65%	2.14	1.56
4	11.65%	2.39	1.57
5	11.65%	2.67	1.58
6	11.29%	2.97	1.58
7	10.93%	3.30	1.58
8	10.58%	3.65	1.58
9	10.22%	4.02	1.56
10	9.86%	4.42	1.55
11	9.50%	4.84	1.52
12	9.15%	5.28	1.50
13	8.79%	5.74	1.47
14	8.43%	6.23	1.43
15	8.07%	6.73	1.39
16	7.72%	7.25	1.35
17	7.36%	7.78	1.31
18	7.00%	8.33	1.26
19	6.64%	8.88	1.21
20	6.28%	9.44	1.16
Terminal	6.29%	209.85	25.72